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SOME LARGER ASPECTS OF THE TRADE IN WAR MATERIALS¹

The manufacture of war materials in the United States has naturally attracted attention because of the rise in the price of so-called war stocks. Such interests, however, as are engendered by the stock exchange by no means exhaust the effect of this unexpected development of our industrial life. The manufacture of powder, arms, and battleships has always been more or less in the public eye, but until recently has been located in a fair perspective of industrial and commercial interests. The development of such industries as can supply the need for munitions on the part of Europe has, however, quite passed anything approaching normal conditions, and its bearings are far more extensive than might possibly at first appear. For this reason it is worth considering from the point of view of general public interest. The day has passed, if indeed it ever existed, in which commercial and industrial undertakings can be estimated exclusively in terms of interest, dividends, and wages.

It would be unwise to attempt any dogmatic prophecy as to the wider bearings of the new situation. Everything is so in the making that we have not enough data upon which to base really satisfactory conclusions. I have found it difficult, in fact impossible, to get accurate data as regards the extent of the development in war industries. The papers abound in what might be called economic gossip in which we hear of companies formed by the Germans for the purpose of buying up the product of machine-shops which otherwise might be furnishing machines to help make munitions for the Allies; of projected \$50,000,000 concerns; of new towns which have sprung up around gunpowder works much as new towns spring up about gold mines. There are reports of additions to existing manufactories; adaptations of other factories; the building of huge new plants, where the munitions of warfare can be produced at an

¹ An address delivered at the Tenth Conference of the Western Economic Society, Chicago, on November 26, 1915.

unheard-of rate. But I shall have to confess that I have had to content myself with general newspaper information and such impressions as I have been otherwise able to gain as to the capitalization, principal, and output of organizations engaged in the manufacture of war materials. Possibly *The Fatherland* has discussed this matter in as much detail as any publication, but I have some hesitation in accepting its statements as altogether unbiased.

But, while definite figures are unobtainable, no one would deny the spectacular immensity of the business itself, and this obvious fact will serve as a basis for certain questions which I wish to propose. For the situation suggests questions rather than conclusions. But these questions are of such serious importance that I cannot hold them as mere academic surmises. They open up matters which every sober-minded man must face respectfully.

The consideration of such questions cannot be detached altogether from those suggested by the nation-wide propaganda for preparedness for defense. Whatever may be our opinion as to the sources, direction, and actual worth of this propaganda, the connection between it and the general interest in the manufacture of war material can certainly not have escaped observation.

I

The first group of questions which the situation suggests centers around this: Does this present development of the manufacture of war material make permanent such manufacture as a private rather than a governmental undertaking? To answer such a question with full understanding, it should be borne in mind that many of the so-called war orders, as, for example, shells for shrapnel, can be filled without making very radical changes in existing machinery. A very considerable amount of the new manufacturing, further, is the production of lathes, which later will be of use for general manufacturing purposes. Such matters plainly would not argue any permanent location of the manufacture of war munitions in private hands. Nor would it necessarily lead to overexpansion or overconstruction of plants. I have in mind a modest-sized machine-shop in New England which has had a very large increase in its business because of orders for lathes. Its owners, however, have

been farsighted enough to see that such expansion of their business as these orders entailed must, in the nature of the case, be only temporary, and have, therefore, preferred to suffer inconvenience because of overcrowded rooms than to increase their capital invested in buildings and new machinery of their own.

Something very different is suggested by the development of plants for the manufacture of firearms, powder, and other actual munitions of war. Here the enlargement of buildings and equipment has necessitated a very large outlay of capital. The buildings, in some cases, might possibly be rebuilt or changed so as to make possible other forms of manufacture, but this is by no means a complete statement of the possibilities, for two reasons.

In the first place, much of this increase in plant and equipment is in corporations already engaged in the manufacture of war materials. Their owners can hardly be expected to view with any complacency the stoppage of these new factories or these additions to old factories. In the second place, such enlargements, if not to be permanently used for the manufacture of war materials, will necessitate an entirely new market if they are to be paying investments when they are used to produce other articles. In both cases it is very difficult not to foresee that the concerns making these investments will seek to develop a market which would justify the maintenance of their present business at the present capacity.

Such a reasonable probability gives rise to other questions. Will the government under these circumstances deem it necessary or even safe to undertake to establish governmental plants to meet the demands of the proposed policy of preparedness? Do not the preparedness program and the present capacity for large output of war material so coincide that the government, in procuring war materials, can hardly avoid a lasting dependence upon private business? This question, one can see, goes very deep. We have the opinion of an expert like Mr. Edison on the proper sort of preparedness, but apparently his advice has received little attention, and instead of a policy of getting together at points well scattered throughout the United States the raw materials from which gunpowder and other explosives can be built, we seem most

likely to be faced with the demand that an enormous supply of such explosives be immediately made; but who can supply this demand except these private concerns? Will, then, the propaganda for preparedness become a means of perpetuating the present private business in war materials and will the government be in danger of being estopped from proper preparedness on its own part? It has been replied that governmental plants, if sufficient to meet the demands of war, would have to stand idle in times of peace, and that, therefore, private concerns are necessary for national preparedness. I have puzzled over this argument faithfully, but am as yet unable to see, on the one hand, how private factories should be more immune than government from the operations of demand and supply, and, on the other hand, if new markets must be developed, why a nation should be kept short-handed in governmental factories in order to enable it to rely upon private business. Is, then, preparedness a new type of protection for new infant industries?

II

This suggests a second group of questions as to how concerns engaged in the manufacture of war materials can expect to maintain their market. Of course they must expect to sell to the United States. Will not this development and the dependence of the government upon these private manufacturers inevitably result in a great development of lobbies intended to keep the government out of the manufacture and in the purchase of war materials?

Highly capitalized business of all sorts has never failed to lobby for large appropriations by Congress for articles which it produces. The Navy League may have suffered at the hands of irresponsible newspaper correspondents in this regard, but it can hardly be denied that it has exerted direct influence upon Congress through lobbies, and indirect influence through stimulated public opinion. If all battleships were built by the government (something by no means impossible in view of the recent bids by League Island Navy Yard for a new dreadnaught), one cause of the lobbies of great shipbuilding concerns would disappear. As long, however, as the government is in any large sense dependent for its preparedness

upon private business, it would be expecting too much of human nature for manufacturers of war materials not to use every possible means to insure for themselves business proportionate to their capacity. Here again one could wish that the champions of our preparedness propaganda would make their position unequivocal. If, as is asserted in many quarters, this propaganda is financed and instigated by concerns which wish to maintain large production of war materials after the cessation of the present war orders, the program for preparedness must always be under a certain amount of suspicion. It may be advisable that the United States should not go into the manufacture of these materials, but should be dependent upon private concerns. If such is the case, the propaganda for preparedness for defense is, to say the least, singularly opportune for those engaged in this manufacture. If, on the other hand, the need of maintaining the business of these private plants is in no wise connected with the present propaganda, it would be reassuring to have definite statements to this effect. Until this point is made clear, the propaganda for preparedness must justly suffer from the suspicion of being a nation-wide lobby in the interest of maintaining present expansion of private manufacture of war material. Patriotism easily becomes a trademark, but never so promptly as in the case of those who seek army contracts.

Another question as to markets has more than national significance: Will there be developed in the United States a business which shall be a rival of that of Krupp and Armstrong? The implications of such a question must be at once apparent. In the first place, enormous businesses such as that of Krupp can never be maintained by the demands of a single country. As a result their agents have been throughout the world engaged in selling their products. War becomes necessary for their business success. The secret history of their methods will probably never be written, but every now and then a sinister light is thrown upon the proceedings by disclosures like that of the graft in the purchase of war supplies; the stimulation of revolution in unstable governments; the equipment of nations which might be possible enemies of the United States with weapons and war supplies. But even more sinister is the tendency of business like that of Krupp and

Armstrong to fasten war upon civilization in the interest of industrialism. Universal peace or even partial disarmament would find itself opposed if it is not already opposed by the representatives of these interests in America as truly as by the representatives of similar interests in other countries. Such contingencies as these certainly are too serious to be ignored by any man who believes the time has come for a constructive program of adjusting international relations.

III

A third group of questions concerns the financial outcome of the present development of manufacture of war materials.

That such business has now reached abnormal proportions is apparent. Some of the questions suggested by the attempt to maintain it at its present development have already been considered, but others remain.

First, assuming, as seems inevitable, that the cost of preparedness for defense will be more than a billion of dollars, how is this enormous expenditure to be financed? There seem to me only two ways in view of the present condition of the United States treasury: Money must be raised either by increased taxation or by the sale of bonds. In either case the people of the United States will have to pay the bills. It would not be surprising if preparedness would revivify the tariff question and become a basis for marked increase in customs duties of all sorts. That such a method would meet with the approval of private concerns engaged in the manufacture of war materials, and particularly those in the steel industry, is to be expected, and thus this new industry is likely to become an important factor in tariff agitation. It will be worth while watching whether the same men are back of the propaganda for preparedness, the financing of business in war materials, and a new agitation for a protective tariff.

In case of a bond issue the enormously increased interest charges and the bonds themselves will have to be met in some way. The American citizen is naturally interested in this phase of the preparedness agitation, but his interest will be much more immediate and the cost of the new preparedness will be more keenly felt if the necessary funds be raised by the establishment of new or the increase

of old taxes. I am not now concerned with the precise method of financing preparedness, but I would call attention to the ultimate interest of the American people in the problems of such financing. If they must ultimately pay the bills, they have a fair question to ask—whether these payments shall go to the enrichment of private interests. If the war-material business, as it now exists, is to become an integral part of our economic order, it is altogether certain that it will seek to become purveyor to the federal government. That private concerns have not hesitated to make money off government contracts goes without saying. One has only to recall the difference in prices charged, for example, for steel armor to the United States and foreign governments. It is certainly a question that must be faced in a statesmanlike spirit, whether, assuming that we are to have a preparedness campaign, it is good policy for the taxing power of the government to be even indirectly put at the disposal of a business that will, despite all precautions, tend toward monopoly and an attempt to maintain prices abnormally high because of present abnormal conditions. To put the matter in a nutshell: Should the American people be asked to tax themselves to give profits to private concerns for materials which are wholly for national use and might be produced in government plants?

I realize that such a question raises the whole matter of the comparative efficiency of governmental and private manufacture, but such consideration does not lead to quietness of mind. If it be urged by those in favor of the private manufacturer that our government is incapable of doing the work satisfactorily, the allegation burrows deep into the structure of our nation. For my own part, I resent the imputation and cannot avoid the suspicion that much criticism of governmental efficiency in manufacturing and engineering operations (as distinct from “pork” appropriations) is stimulated by those who would profit thereby. It is good policy to depreciate the efficiency of democratic government in order to insure the letting of contracts for war materials to private concerns.

In this connection two things are at least worth noticing: First, that the governments of England and France have practically

taken over the manufacture of munitions, not only to the extent of taking the general control of the business, but to the building of plants. Great Britain, for example, has built twenty-seven governmental plants. In the second place, it is to be noticed that, according to newspaper reports, these plants are now becoming able to supply the needs of the Allies, so that the continuance of war orders in this country, at least in their present magnitude, is unlikely. Evidently this intensifies the financial problem of the business and emphasizes the need of maintaining a market.

Another question of a similar sort is whether the profits from the manufacture of war materials, if left in private hands, should be subject to exceptional taxes. Germany, for example, is said to be taking 50 per cent of these profits at the present time in taxes. It would be very difficult to levy such a tax in the United States, whatever might be the public opinion as regards the advisability of private persons growing rich because of government contracts. Possibly prices might be regulated by the establishment of some maximum or by the threat of governmental competition. In any case, however, the question of the legitimacy of perpetuating present prices for such materials would be one which would require attention.

Still another question concerns the adjustment of normal relations at the close of the war. How far can the present war-material industry with its tremendous capitalization and high wages adjust itself to the inevitable change of level in world-capitalization? Who would dare say whether, after the war in Europe, boom or hard times will follow the process by which capital and wages seek the new levels compelled by the terrific losses of Europe? Should a campaign for preparedness prevent the war-material business from sharing in this readjustment? Why should it either directly or indirectly be protected from the normal operation of economic forces?

IV

A fourth group of questions concerns the effect of our present policy upon the future of our international commerce.

The dramatic horror of the present war has served to obscure in the minds of the American people one fact of supreme importance

to the future of civilization. This is the tremendous development of governmental activity and the discipline of all the great nations of Europe in co-operative national efficiency. This development is not to be attributed to any particular body of social theorists, whether socialists or paternalists. The situation itself is creative, and out from it flow causes as well as effects. Just what these new causes will be, and just what the temperament of the new order in Europe after the war will be, no one can say accurately. But this much is apparent—each of the great nations now at war will emerge more than ever ready to carry governmental organization into economic affairs. Prior to the war we saw what this means in the case of American competition with Germany and Japan, not to mention Great Britain; but the new attitude of mind enforced by the war will make European nations vastly more effective competitors of the United States than before. Governmental initiative will lead commercial campaigns with men trained to accept governmental leadership in military campaigns. The nations of Europe are now being disciplined to see governments control practically all forms of economic life, even the fixing of prices of foodstuffs. Private initiative in business, already so remarkably supplemented by governmental action, is, in the case of Germany and Great Britain, being still further accustomed to national direction. We may expect to see the governments of Europe going after their lost business with consular and other service far superior even to that already in operation.

As over against this new discipline in efficiency, the private production of war materials in the United States tends toward the still further disintegration of our efficiency in international business. So far from letting the moment teach us the value of governmental co-operation in international trade, and of discipline in such co-operation, we find ourselves repeating most of the methods which have already lost us trade in South America, China, and Australia. While democracies like Great Britain and France are learning lessons in industrial efficiency by governmental operation of munitions plants, the United States is being given lessons in the way of abnormal profits gained by private concerns which look to Congress for the support of their market. That is to say, so far

from utilizing the moment and the call to preparedness as a school of disciplined, co-operative nationalism, we are in danger of letting the production of war materials fasten upon us habits and situations that will be further weights in the race for international trade. Those who are teaching us suspicion of now friendly nations as a basis for preparedness for defense are singularly silent as to preparedness on the part of our government for the promotion of our commercial efficiency. Military discipline that makes economic discipline more practicable we can understand; but military preparedness that means government patronage of overcapitalized munitions factories may mean discipline in the very methods that have hurt the expansion of international trade. The most important task in the moment of transition which is to follow the close of the war will be the correlation of private and governmental activities. The fact that we are to be a creditor nation will be likely to distract attention from international commerce to international finances, but even greater is the danger that the present situation in the United States is preparing us for defeat when we go into the arena of the world-trade. We are perpetuating conditions that will leave us a mob of individual traders, confronted by the highly organized and disciplined forces of European commerce, made even more efficient by their experience of governmental direction and control of economic life during war time.

Nor can one help pushing this thought one step farther. Can it be possible, as some have claimed, that the Allies are permitting us to overdevelop in the manufacture of war material, thus enabling their own factories to maintain their export trade? The fact that our export trade has developed so enormously must of course be attributed to abnormal conditions, and it would be a serious mistake to hold that such trade will continue under new conditions, especially if the foreign nations have maintained a tolerable balance in their industrial life.

On this point we still seek information, but it may at least be suggested that it would be well for us not to mistake our present export trade, and particularly our trade in war materials, for the promise of easy conquest in the world-markets.

In raising these questions I have been particularly concerned in directing attention to matters which lie beneath a phenomenon unprecedented in our economic life. The answers to these questions will constitute a policy of constructive statesmanship. One could wish that there were more evidence that they are at present being seriously considered. At all events, it would seem to me the part of good citizenship to face them without preconceptions, and if possible without passion. Any great movement such as preparedness for defense has political, economic, and social aspects of quite as much importance as the military. Yet as far as I have seen there has been no serious study of the entire situation, but rather a perfervid appeal to national fears stimulated by an attempt to develop international suspicion.

I trust that the questions which I have raised will serve to show the need of something more than rhetorical appeal on one side or the other. Economic questions may be precipitated by national excitement, but they will have to be settled by the scientific study of facts. Unless I mistake, before we can have a constructive policy for the national epoch already apparently opened, we need to discover first of all whether preparedness shall become a genuinely governmental function rather than a means to maintain a business which has grown up under abnormal conditions of war. If this question is once answered in the affirmative, the program of preparedness will be freed from all suspicion of entangling alliances with financial interests, and ready for consideration on its own merits.

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